

**STRICTLY CONFIDENTIAL (FR) CLASS II-FOMC**

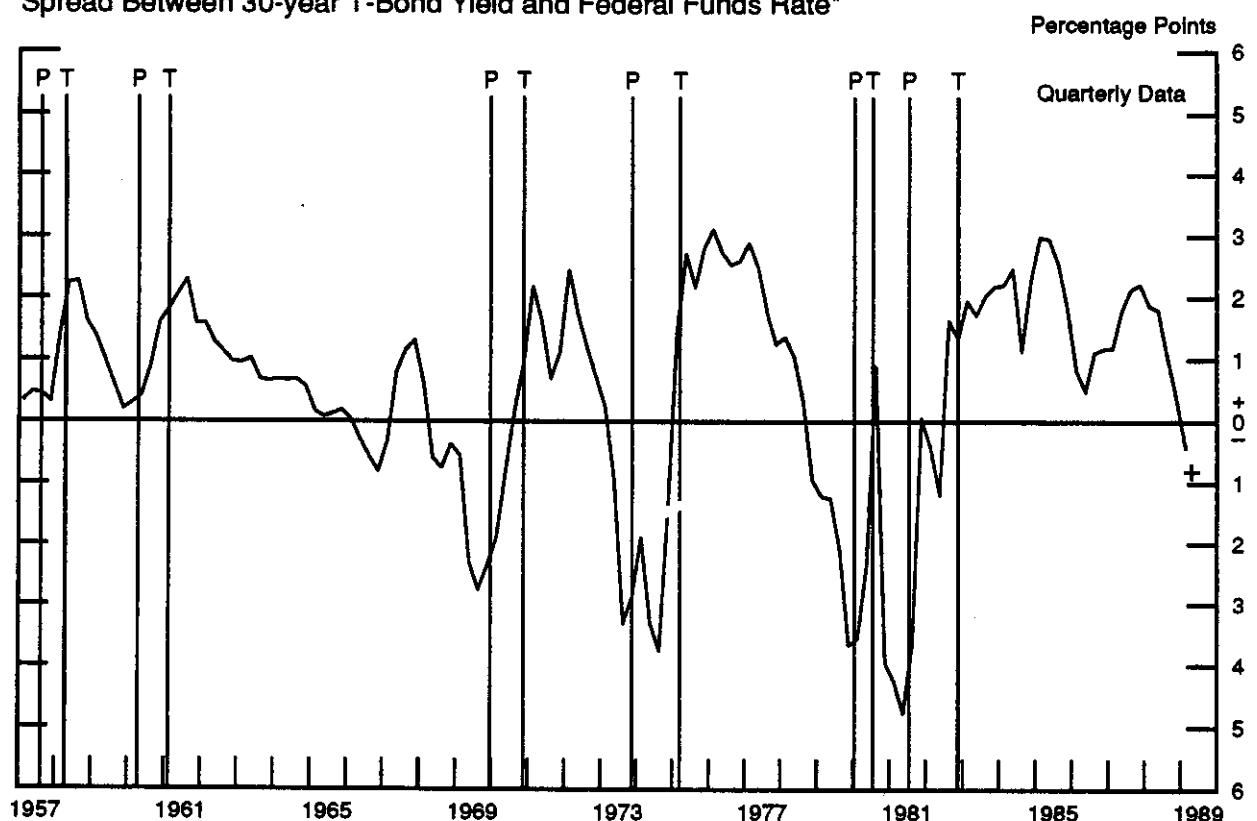
*Financial Indicators*

*March 28, 1989*

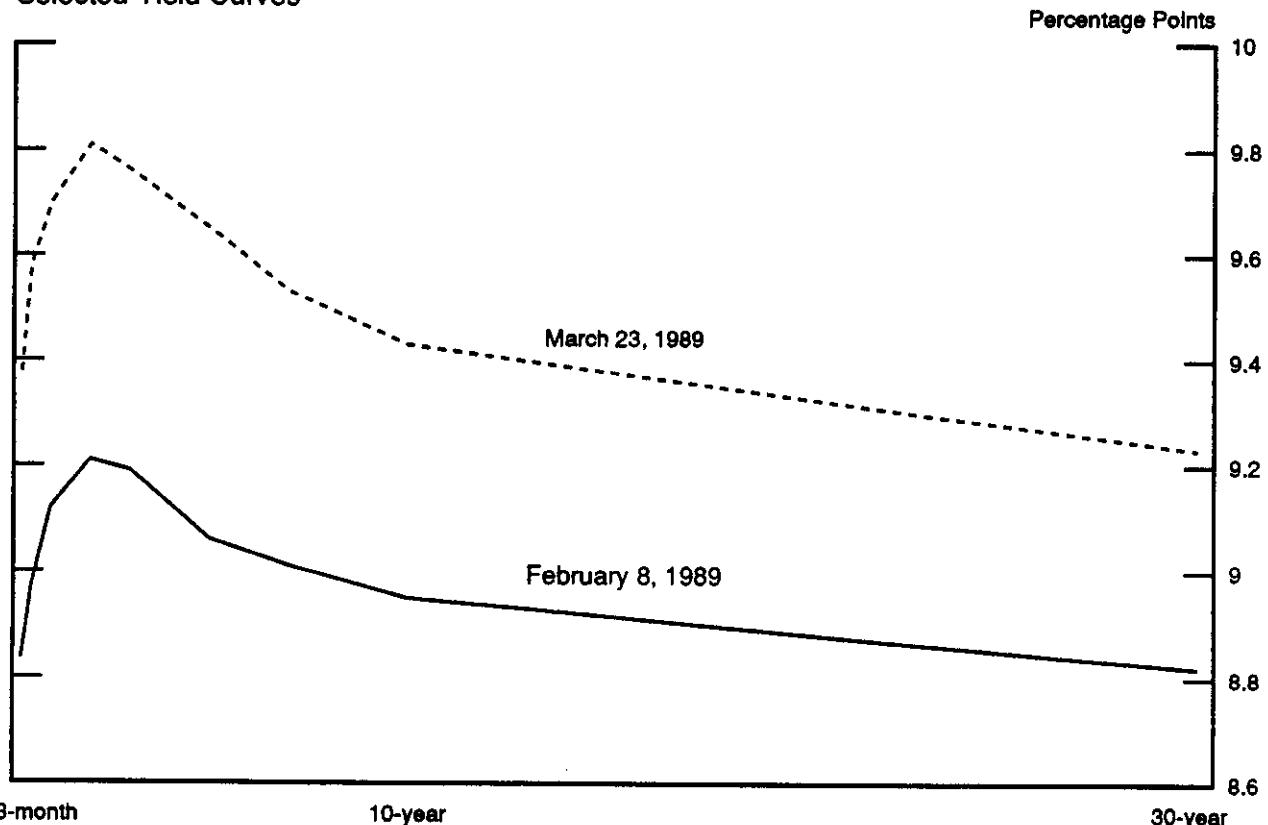
Chart 1

## The Yield Curve

Spread Between 30-year T-Bond Yield and Federal Funds Rate\*



## Selected Yield Curves

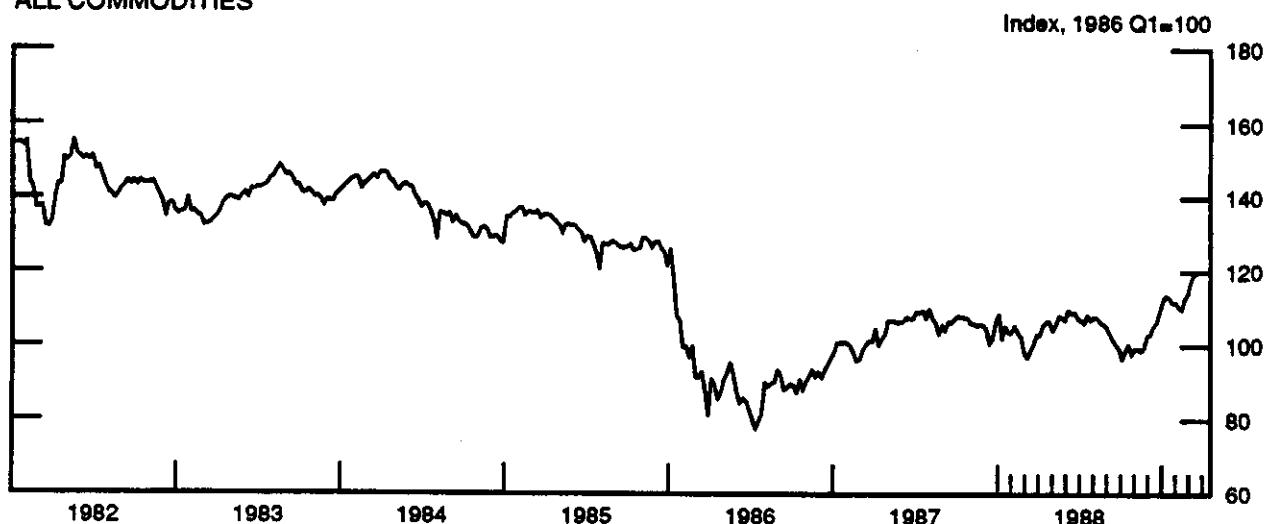


\*Spread between the 20-year Treasury constant maturity and the federal funds rate (bond equivalent basis) prior to 1977:Q2.  
Beginning in 1977:Q2, the 30-year Treasury constant maturity is used.

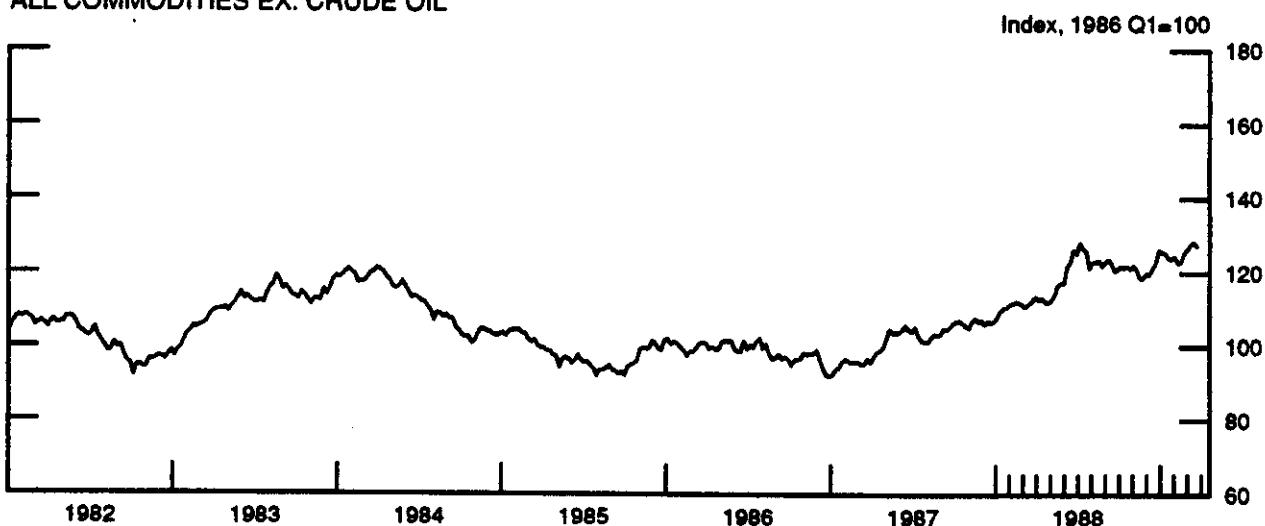
+ Denotes most recent weekly value.

Chart 2  
Experimental Price Index for 21 Commodities(Weekly)

ALL COMMODITIES



ALL COMMODITIES EX. CRUDE OIL



ALL COMMODITIES EX. FOOD and CRUDE OIL

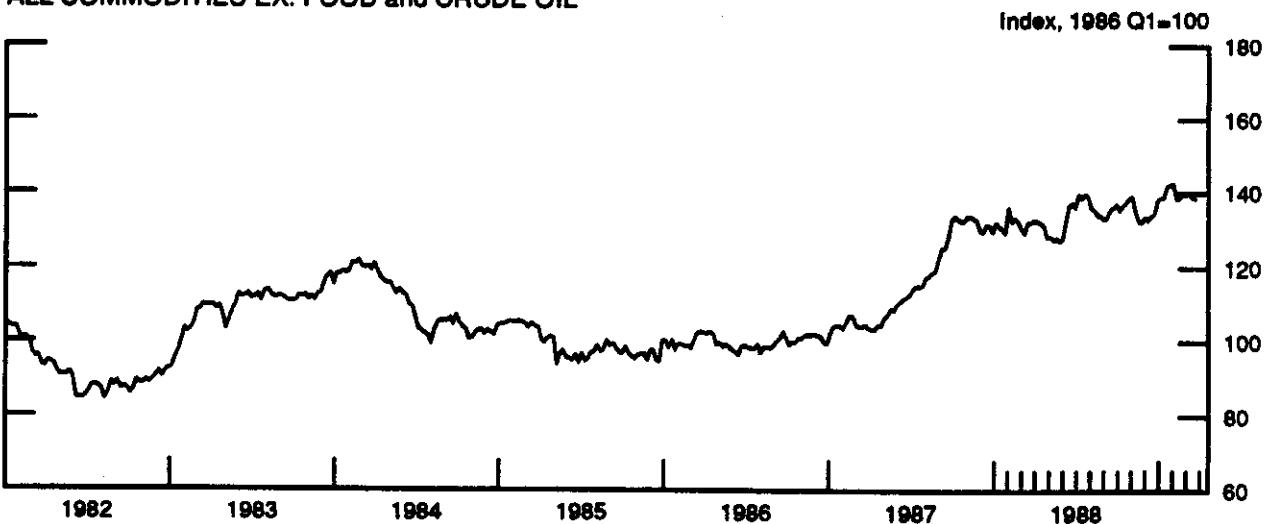
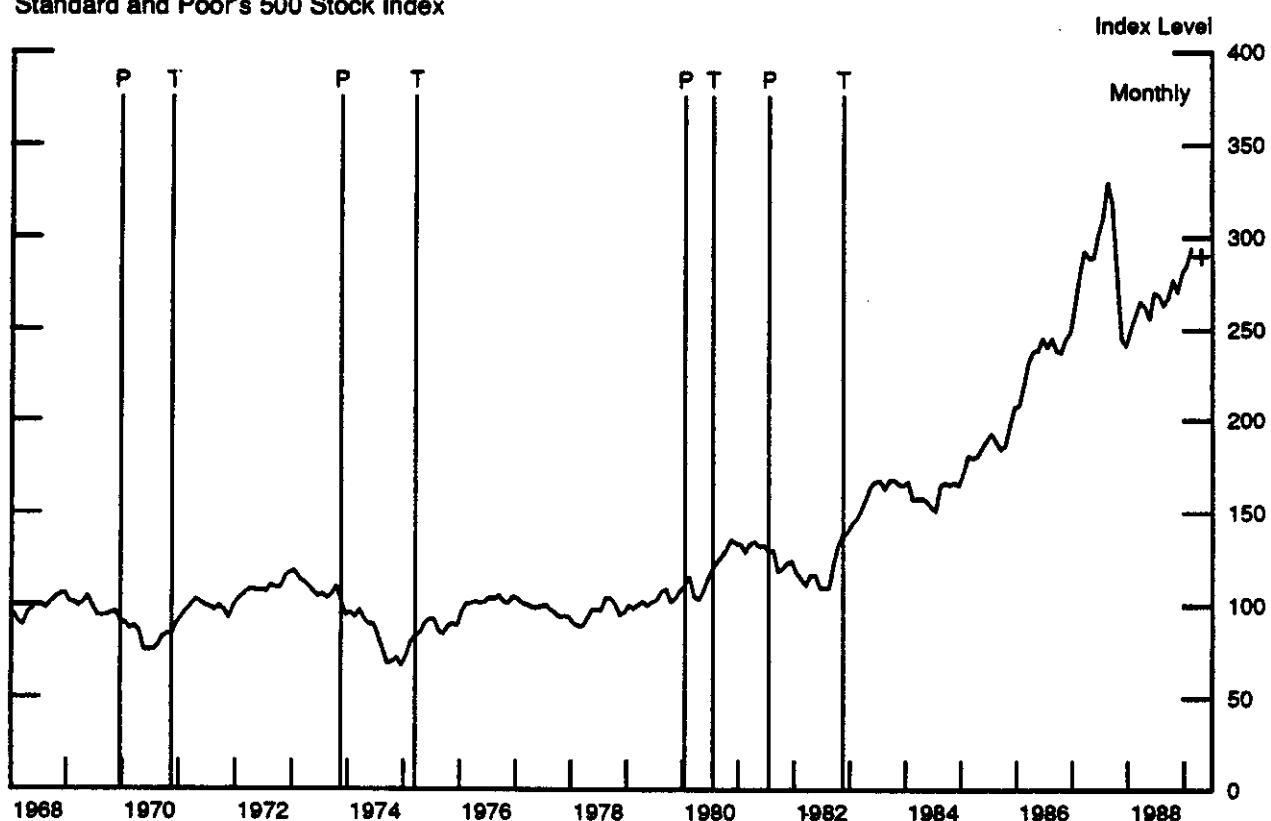


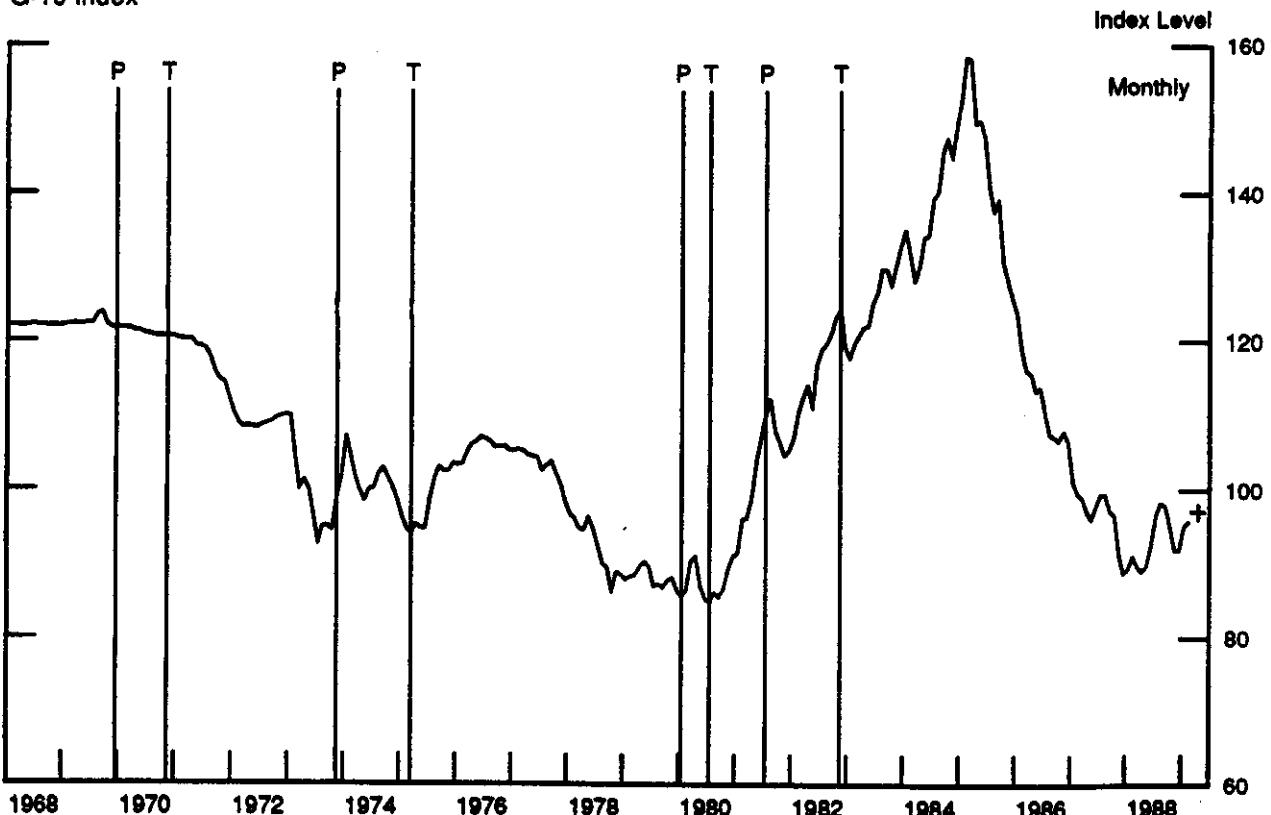
Chart 3

### Stock Prices and the Exchange Value of the Dollar

#### Standard and Poor's 500 Stock Index

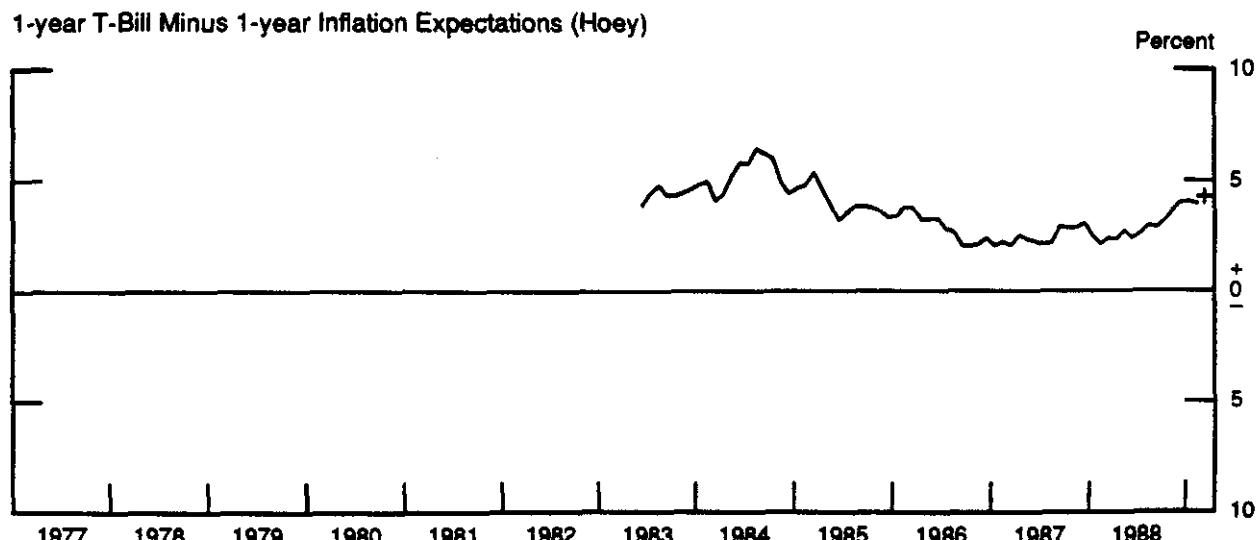
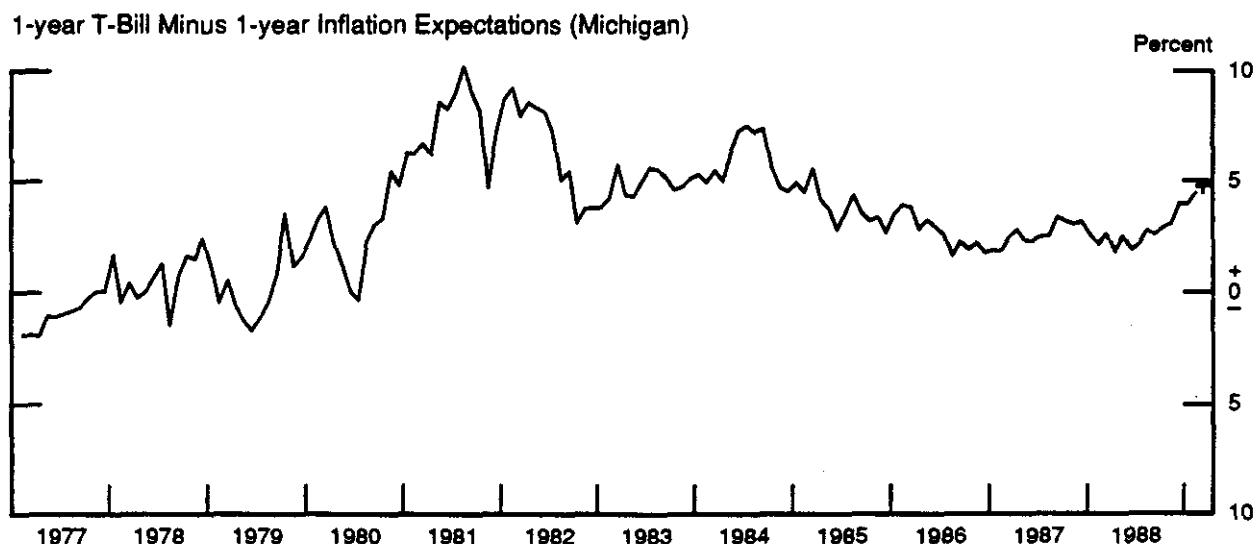
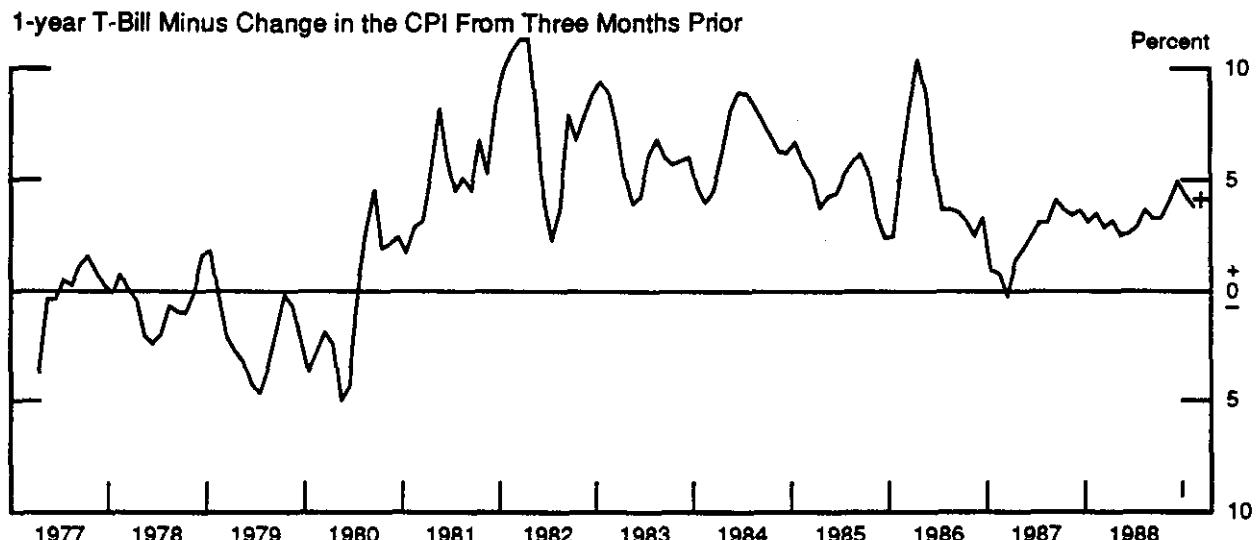


#### G-10 Index



+ Denotes most recent weekly value.

Chart 4  
Short-Term Real Interest Rates



NOTE: Hoey Survey is not available prior to June 1983.

+ Denotes most recent weekly T-bill rate less most recent inflation expectation.

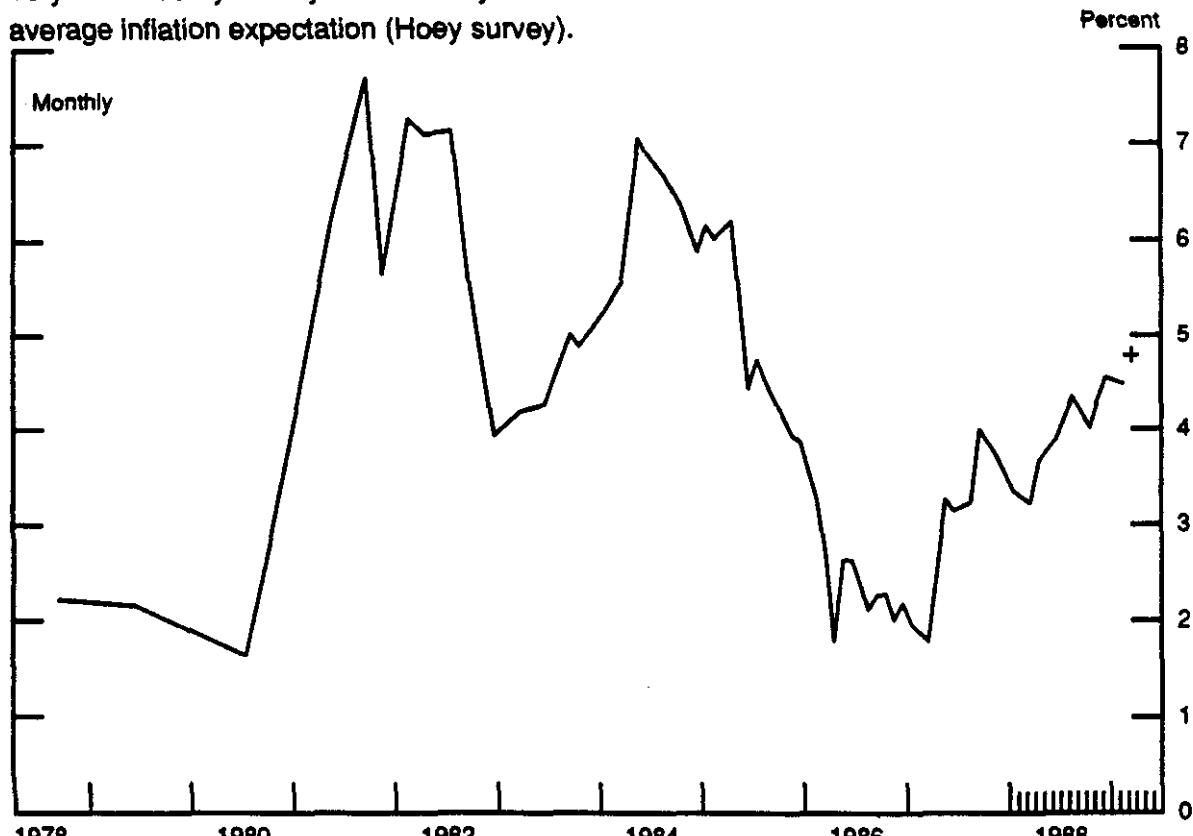
Chart 5

**Inflation Expectations  
(Hoey Survey)**

Survey Date	Next 12 months	First 5 years	Second 5 years	10-year average
-----annual rate, percent-----				
1986: Q3	3.5	4.8	5.5	5.1
Q4	3.6	4.7	5.5	5.1
1987: January	3.8	4.9	5.4	5.1
March	4.0	5.2	5.8	5.5
May	4.7	5.3	5.4	5.3
June	4.6	5.2	5.3	5.3
August	4.9	5.4	5.7	5.5
September	4.7	5.3	5.6	5.4
November	4.1	5.0	5.3	5.1
1988: January	4.5	5.2	5.5	5.3
March	4.3	5.0	5.3	5.2
April	4.7	5.1	5.0	5.1
June	5.1	5.1	4.9	5.0
August	5.3	5.1	4.8	4.9
October	4.9	4.7	4.9	4.8
November	4.8	4.6	4.7	4.7
December	5.0	4.6	4.6	4.6
1989: February	5.3	4.7	4.7	4.7

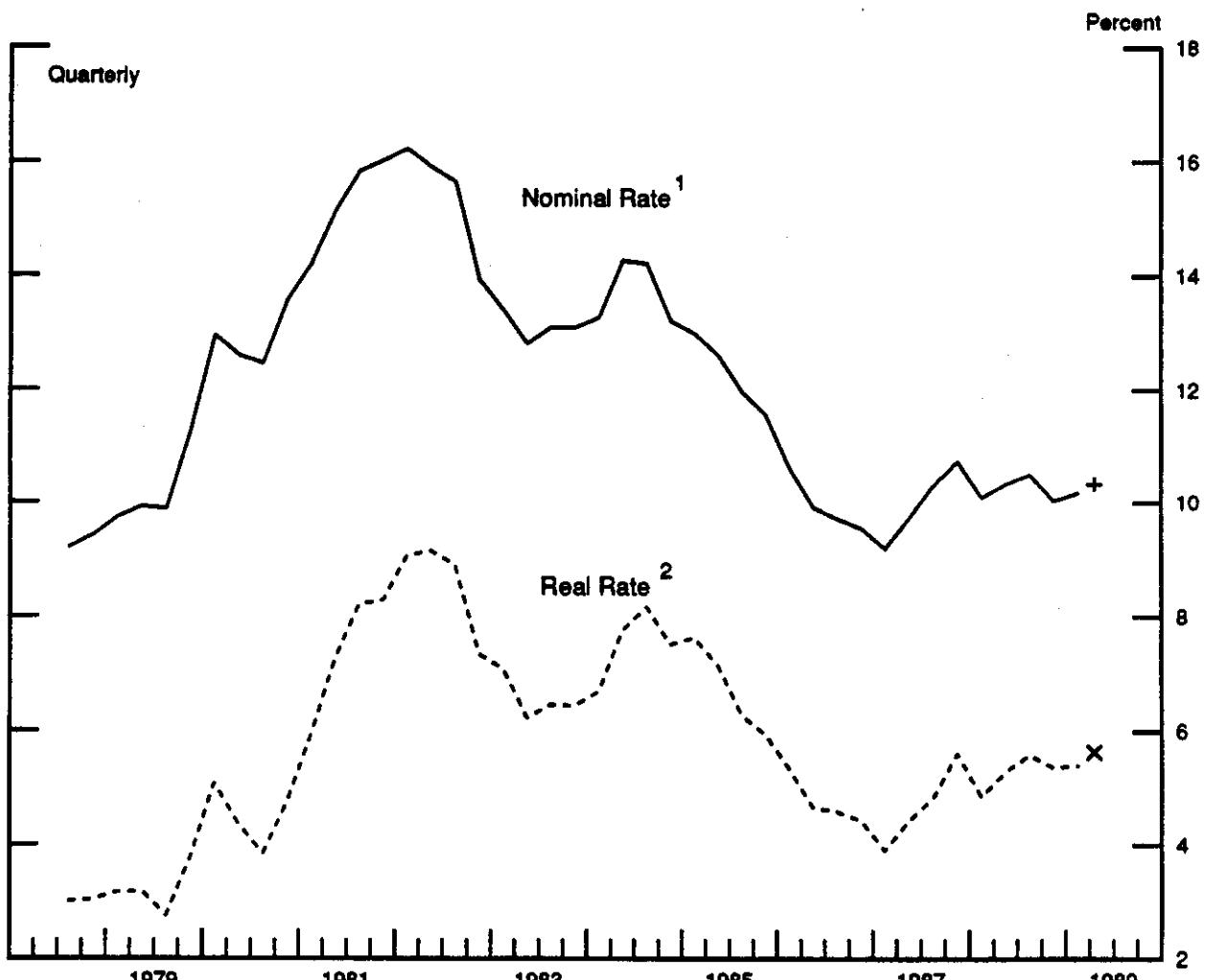
**LONG-TERM REAL INTEREST RATE**

10-year Treasury bond yield less 10-year average inflation expectation (Hoey survey).



+ - Denotes most recent weekly value less most recent inflation expectation.

Chart 6  
Nominal and Real Corporate Bond Rates



1. Yield on Moody's A-rated corporate bonds, all industries.

2. Nominal rate less Hoey survey of ten-year inflation expectations.

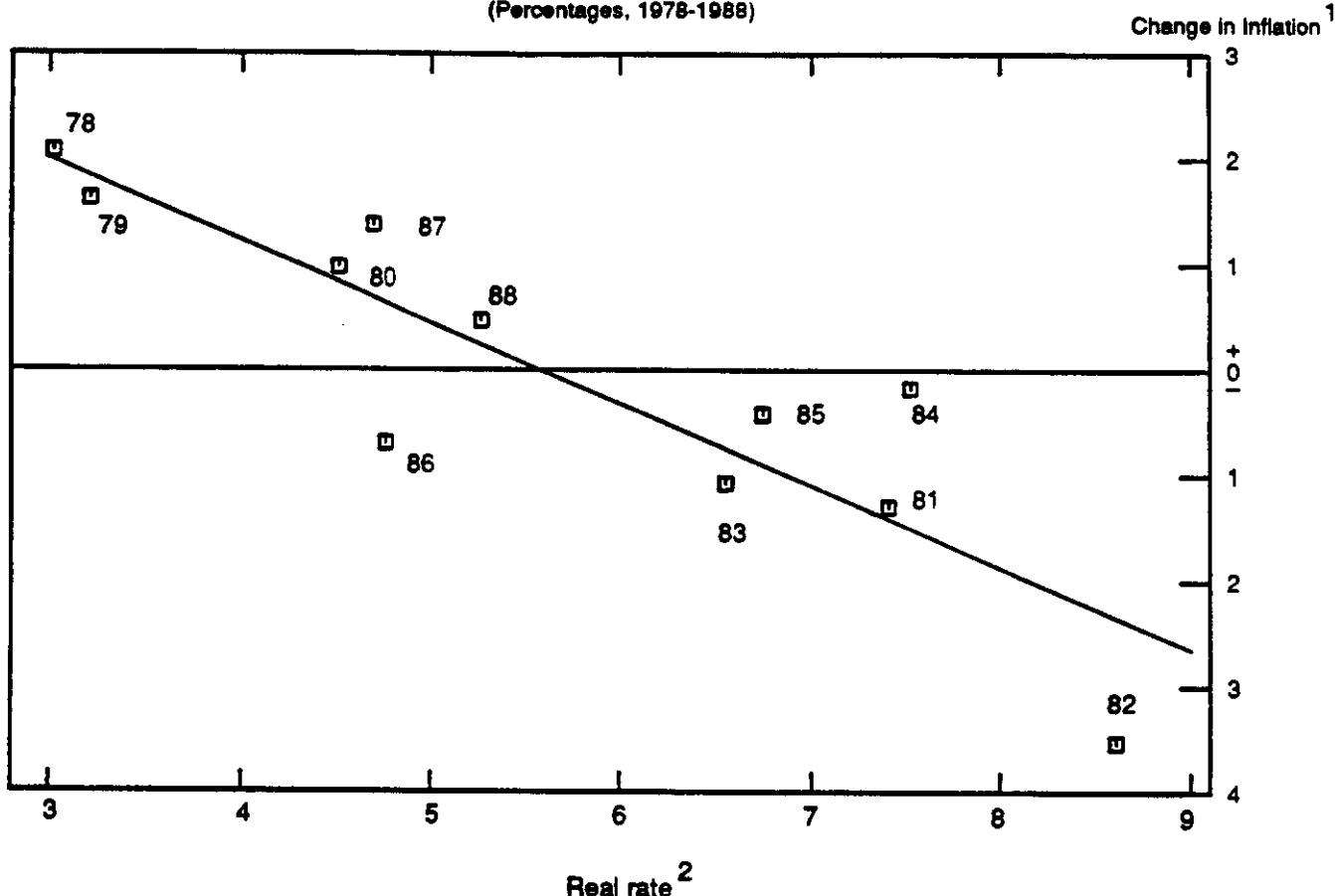
+ Denotes most recent weekly value.

X Denotes most recent weekly value less most recent inflation expectation.

Chart 7

## Price Acceleration and the Real Rate

(Percentages, 1978-1988)



1. GNP fixed-weight price index.

2. Nominal rate on Moody's A-rated corporate bonds for all industries  
less Hoey survey of ten-year inflation expectations.Regression equation (annual data 1978-1988):

$$\text{Change in inflation} = 4.327 - 0.775(\text{real rate})$$

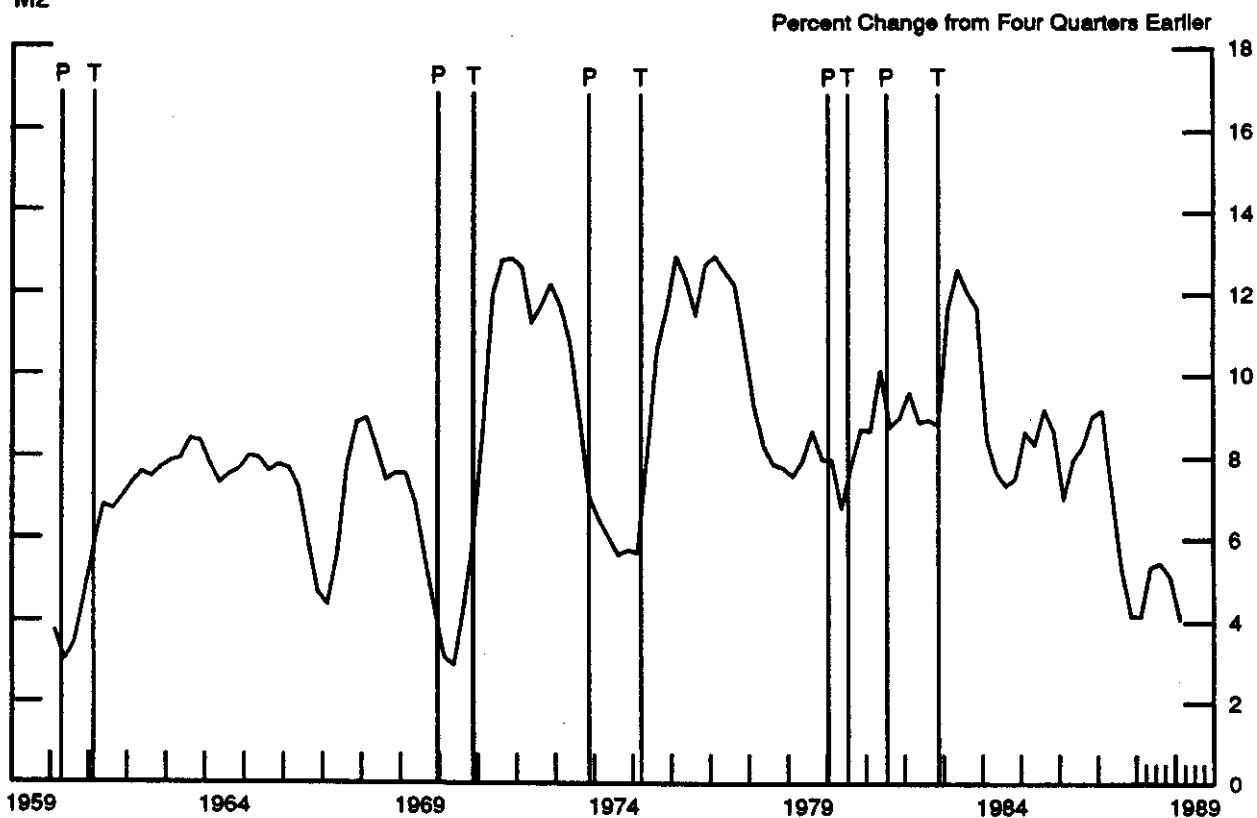
T-statistics                    (5.2)      (-5.5)

$\bar{R}^2 = .747$ , Durbin-Watson = 2.32, Standard Error = 0.81

Chart 8

## Growth of M2 and M3

M2



M3

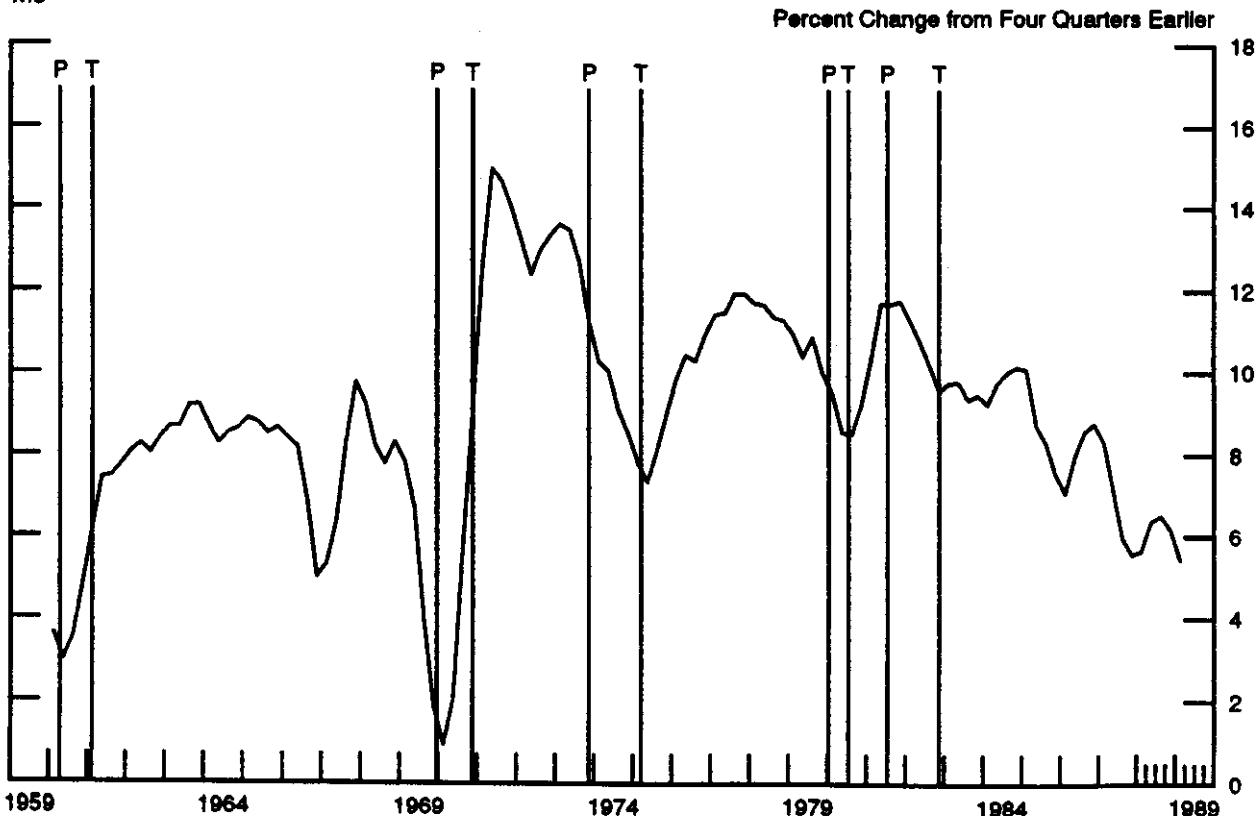
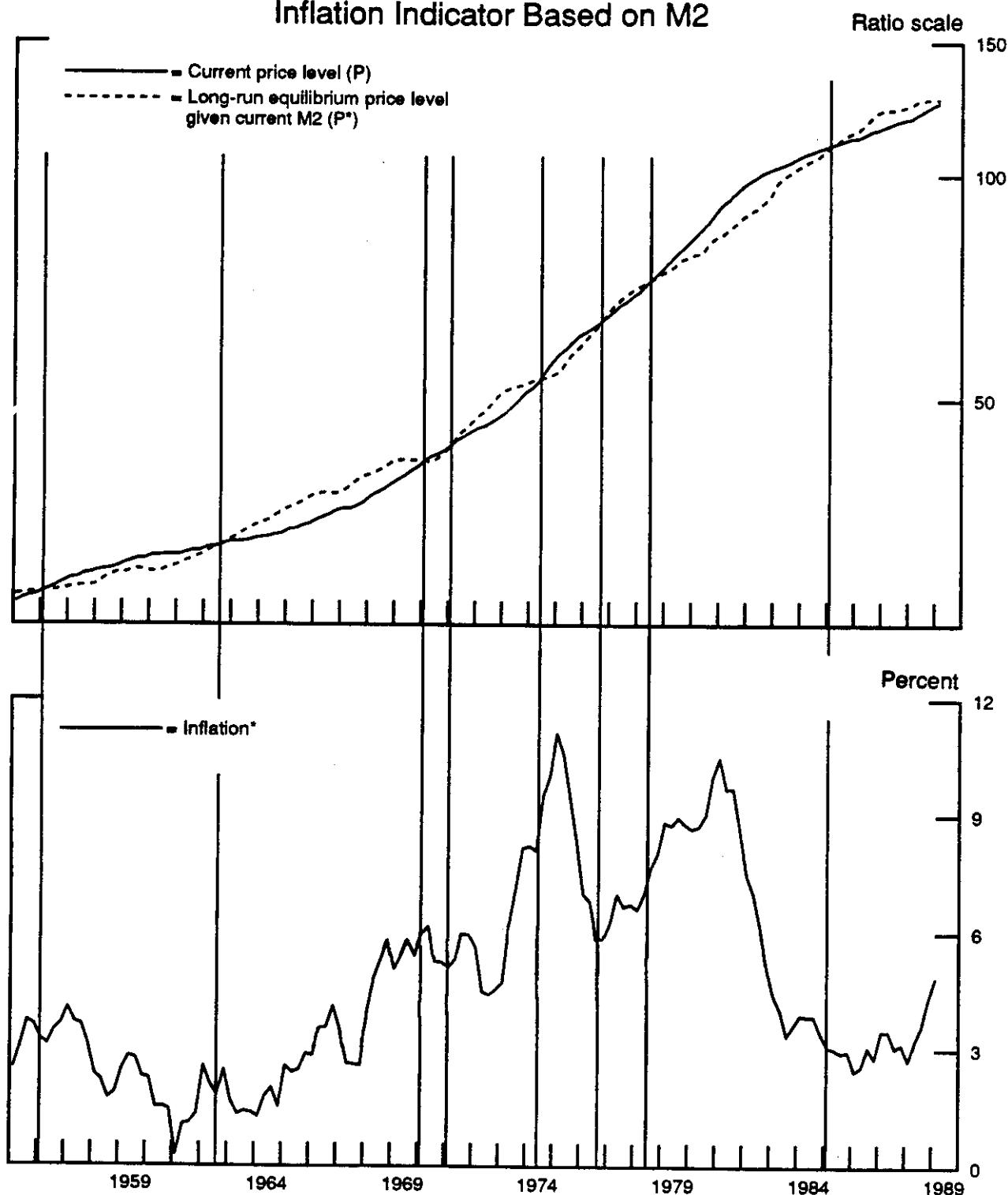


Chart 9  
Inflation Indicator Based on M2



\* GNP implicit deflator over the previous four quarters.